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Weekly Commentary, Selected Financial Data, and Business Indicators

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Spotlight Focuses On The Consumer . . .

The consumer sector has received much attention recently and with good reason. Accounting for two-thirds of our gross national product, sales of goods and services to individuals and families far surpass the other two major domestic purchasers, business and government. Moreover, while real GNP has increased at an annual rate of only 1.8 percent during the first three quarters of this year, real personal consumption expenditures have climbed by a healthier 4.9 percent annual rate. Now with the start of the important Holiday shopping season less than three weeks away, concern is mounting that the consumer is tapped out.

To be sure, on the surface, household finances seem to be in trouble. Consumer credit compared with disposable income is at a record 18.9 percent, income growth has slowed, and the savings rate—savings as a percent of disposable income—is now 1.9 percent—the lowest rate in at least 35 years. However, as has been pointed out in the past (Financial Digest—September 23, 1985), the aggregate figures mask a more positive picture underneath. For example, much of the debt accumulated has been taken on by those high-income households which are probably best able to service it. And while the low savings rate has received notoriety in the press, the savings number may be somewhat misleading. This is because different government agencies use different methods to estimate personal savings levels.

. . . But A Misleading Savings Rate . . .

The savings rate most quoted in the press uses a savings level calculated by the Commerce Department. This method takes monthly disposable incomes and subtracts consumption expenditures, interest paid by consumers to businesses and any transfer payments to people abroad, leaving a residual assumed to be savings. This approach has resulted in the 1.9 percent rate in September, down from the 2.9 percent average of the third quarter, and the 5.1 percent average for the second quarter.

The Federal Reserve, on the other hand, looks at the quarterly increases in households' financial and certain tangible assets then subtracts the changes in debt, contributions to government insurance and pension funds, and depreciation. The final number as a percent of disposable income gives a savings rate for the second quarter (the latest available) of 6.3 percent. The gap between the two different savings figures has varied in the past by tens of billions of dollars, obviously causing divergencies in the two savings rates.

Studies have shown that some of the major differences between the two calculations include such items as unrecorded capital flows from abroad, the effects of the underground economy on incomes and the understatement of domestic investment. However, another distinction causing the recent downward shift in the Commerce Department's savings rate is that this method does not take into account the accumulation of debt when purchases are made. For instance, in computing personal consumption expenditures, the total dollar amount of new cars sold is included, although only 25 percent of all new cars sold are paid for in full at the time of the purchase. The other 75 percent are bought on credit.

This becomes important in light of the strong sales of new cars in August and September. Low financing rates caused extraordinary jumps in sales, about 1.8 million units at an annual rate above the recent trend for August and 3.7 million units higher in September. If these extraordinary increases in car sales are excluded, the savings rates in August and September would probably have been 3.6 percent and 3.3 percent, respectively—not far from the 3.7 percent and 3.8 percent rates in June and July. Moreover, if the total dollar amount spent on all new cars that was obtained through financing is taken out of consumption expenditures, the savings rate for August and September would jump to 6.5 and 6.1 percent, respectively.

. . . Overshadows More Positive Signs

No question, consumers have led the U.S. economy down the road of the current business expansion. In particular, over the past three quarters, the economy's lackluster performance might well have developed into a full-fledged recession, were it not

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for consumers' willingness to spend. Consumer spending, adjusted for inflation, has increased more than 14 percent during this expansion—almost two percentage points higher than the average rise in real consumption over the same time span of most other postwar recoveries. In fact, only in the 1975-79 expansion did consumers increase their spending faster than today. However, the stepped-up spending seen in the late 1970s was a result of a "buy now before prices go up" psychology in which consumers went off on a buying and borrowing binge in order to protect themselves against that period's rapid escalation of prices.

In today's low inflation environment, it seems that the most important determinant of consumer spending is the employment situation. Although the civilian unemployment rate in October was unchanged from September's 7.1 percent of the labor force, a substantial gain in employment did take place. Nonfarm businesses added 415,000 jobs to their payrolls. What is more, the gains in wage and salary employment were widespread, with more than two-thirds of the 185 industries monitored by the Bureau of Labor Statistics registering increases. Even the manufacturing sector, battered by foreign competition, added 60,000 workers to its payrolls after posting declines throughout most of 1985.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	11/6/85		
U.S. Gov'ts and Agencies Owned Outright & RPs	178.838	+ 1.856	+17.767
Loans to Depository Inst.	1.125	+ .100	– 4.436
Float	.417	– .132	+ .204
Total Reserve Bank Credit	195.158	+ 2.093	+15.743
Treasury Deposits with Federal Reserve Banks	3.107	+ .443	– .084
Currency in Circulation	189.880	+ 1.340	+12.881
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	126.296	+ 2.969	+ 7.929
	11/6/85		
Member Bank Reserves:			
Total Reserves Held	43.580	– .239	+ 5.585
Excess (Deficiency)	.790	– .028	+ .224
Net Free Reserves	.313	– .036	+ .936

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (10/28/85)	611.4	+ 10.3‡	+ 11.4‡
M2 (September '85)	2,528.5	+ 9.0	+ 9.5
M3 (September '85)	3,164.1	+ 7.9	+ 9.1
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/8/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.27%	7.31%	7.33%
* Federal Agencies	8.35	8.50	9.00
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.33	8.56	9.49
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.78	7.78	7.95

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.80%	Dec.	7.77%
15- 29 days	7.90	Jan.	7.72
30- 59 days	7.80	Feb.	7.67
60- 89 days	7.75	Mar.	7.64
90-179 days	7.70	Apr.	7.62
180-239 days	7.65	May	7.57
240-270 days	7.65		

‡ Industrial Paper—Prime		† Federal Funds Effective Rate	7.85%
30- 89 days	7.78%		
90-120 days	7.70		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'85	$ 3,916	$ 3,853	$ 3,695
Gross National Product (1972 Dollars)*	3rd Q'85	$ 1,685	$ 1,671	$ 1,645
Percent Change, Annual Rate	3rd Q'85	3.3	1.9	1.6
Change in Consumer Prices*	Sep '85	2.4%	2.4%	4.8%
Change in Producer Prices*	Sep '85	– 7.2%	– 3.6%	0.0%
Civilian Employment (Thousands of Persons) †	Oct '85	107,867	107,544	105,649
Unemployment as % of Civilian Labor Force †	Oct '85	7.1%	7.1%	7.3%
Personal Income*	Sep '85	$ 3,209	$ 3,199	$ 3,068
Leading Indicators Composite Index (1967=100)†	Sep '85	170.3	170.2	165.7
Industrial Production Index (1977=100) †	Sep '85	124.7	124.8	123.3
Net Change in Consumer Installment Credit †	Aug '85	$ 6.31	$ 6.25	$ .6.02
U.S. Merchandise Trade Balance †	Sep '85	–$ 15.55	–$ 9.90	–$ 11.54
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Sep '85	1,583	1,746	1,669
New Construction Expenditures*	Sep '85	$ 350.4	$ 343.9	$ 321.0
Total Business Inventories †	Aug '85	$ 577.9	$ 580.1	$ 561.7
Total Business Sales †	Aug '85	$ 429.1	$ 422.5	$ 413.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Not only is total employment at record levels, but the employment rate—the number of people holding jobs as a percent of the population over 16 years old—now matches its record mark attained last March. At 60.3 percent in October, the employment rate is three percentage points higher than its postwar average. Future employment prospects still remain bright. The Conference Board reports that the volume of help-wanted advertising in U.S. newspapers—a harbinger of additional hiring prospects—rose in the latest month.

Consumer attitudes seem to be brightening just in time for Holiday buying. According to the Conference Board's latest survey, consumer confidence in October rose after two months of declines. Although fewer people now plan to buy cars, which comes as no surprise in view of record auto purchases in August and September and the expiration of most cut-rate financing, consumers now feel it's time to step up spending on such major home appliances as television sets, vacuum cleaners, washing machines and dryers. The number of people who in October planned to buy such appliances reached the highest level in seven years. As long as employment continues to rise bringing increased incomes and security, consumers should be less prone to tighten their purse strings or lock up their credit cards—good news for merchants as they plan for the approaching Holiday shopping season. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/23/85)	157,350	+ 268	– 4,042
New York City (10/30/85)	33,764	+ 115	– 71
Commercial Paper (10/30/85)	286,048	– 356	+55,499

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (10/23/85)	252,506	+ 444	+ 4,747
New York City (10/30/85)	59,665	+ 140	– 4,356

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/23/85)	687,723	– 4,325	+ 52,237
New York City (10/30/85)	152,047	+ 2,132	+ 8,906

Financial Markets

	Friday 11/8/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.46%	+ .02	– 1.54
180-Day Bills†	7.64	– .04	– 1.87
Longest Bills†	7.80	– .11	– 2.17
Recent Issues:			
10s 10/31/87	8.56	– .14	
9 3/8s 9/30/89	9.11	– .13	
10 1/2s 8/15/95	9.84	– .14	
10 5/8s 8/15/15	10.14	– .11	
Municipals:			
Bond Buyer–20 Bond Index* (11/7/85)	8.68%	– .08	– 1.49
Blue List Total ($ Million)	$1,578	+$ 154	– $ 154
30-Day Visible Supply ($ Million)	$8,098	+$2,219	+ $4,648
Total	$9,676	+$2,373	+ $4,494
Corporates:			
Moody's Aa Composite (11/7/85)	11.18%	– .13	– 1.60
30-Day Visible Supply ($ Million)	$1,868	–$1,155	– $3,139
Stocks:			
Dow-Jones Averages:			
Industrials	1,404.36	+ 14.11	+ 185.39
Transportation	678.14	+ 12.53	+ 145.71
Utilities	161.93	+ .15	+ 16.16
65 Stocks	569.44	+ 6.25	+ 85.69
Standard and Poor's 500 Stocks	193.72	+ 2.19	+ 26.12
N.Y.S.E. Composite Index	111.95	+ 1.40	+ 15.22
N.Y.S.E. Avg. Daily Vol. for Week (000's)	117,604	+ 1,546	+ 23,658

* 46% Taxable equivalent 16.07%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/8/85	Week Ago
Overnight	7.81%	8.19%
1 month	8.00	7.94
3 month	8.06	8.00
6 month	8.06	8.00
1 year	8.25	8.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	9.80%	9.90%
Long Term (7 to 15 yrs.)	10.35	10.40

FOREIGN EXCHANGE SPOT RATES New York Opening (11/8/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01886	53.03
Canada	.7261	1.3773
Denmark	.1054	9.4875
France	.1251	7.9925
Germany	.3812	2.6233
Italy	.0005651	1769.50
Japan	.004861	205.70
Mexico	.002083	480.00
Netherlands	.3381	2.9575
Switzerland	.4638	2.1560
U.K.	1.4160	.7062

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